

Fiscal Services Division Legislative Services Agency Fiscal Note

Phase Out of Sales Tax on Residential Utilities (LSB 5365 HV)
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Fiscal Note Version — HF 2038

Description

House File 2038 provides for a phase-out of the sales and use tax on residential energy utility bills. The language reenacts a previous phase-out provision.

Background

House File 1 (Utility Tax Suspension and Phase-out Act of 2001) reduced Iowa's 5.0% sales and use tax on residential energy utilities by 1.0% per year, beginning January 1, 2002. House File 692 (Tax Law Changes, Grow Iowa Values Fund, and Regulatory Change Act of 2003) froze the phase-out at 3.0% through June 30, 2008. The Governor vetoed the tax freeze language. In addition, the adoption by Iowa of model Streamlined Sales Tax legislation in HF 683 (Grow Iowa Values Fund Appropriations Act of 2003) re-wrote Iowa's sales and use tax laws. The combination of the vetoed tax rate freeze and the enactment of the revised sales and use tax legislation left residential utility tax rates out of the sales and use tax code. This returns the rate to 5.0% on the effective date of the new sales and use tax code (July 1, 2004).

The Revenue Estimating Conference increased the revenue estimate for FY 2005 by \$63.4 million in response to the tax law change. Enactment of HF 2038 would return Iowa law to the previous phase-out schedule and reduce FY 2005 General Fund revenues by the same \$63.4 million.

Assumptions

1. Based on a five-year average of residential expenditures on electricity, natural gas, home heating oil, and other forms of home heating fuel, Iowans expend an average of \$1.812 billion on residential energy each year.
2. Each 1.0% of tax for six months generates approximately \$9.0 million for the General Fund.
 - a. HF 2038 would lower the tax from 5.0% to 2.0% for the first six months of FY 2005 and to 1.0% for the second six months.
 - b. For FY 2006, the rate would be reduced to 1.0% for the first six months and to 0.0% for the second six months.
 - c. For FY 2007 and each year thereafter, the rate would remain at 0.0%.
 - d. Seasonal natural gas usage makes the tax generated in the first half of a fiscal year less than the amount generated in the second half.
 - e. Residential energy utility costs will increase 2.5% per year after July 1, 2004.

Fiscal Impact

The reinstatement of the previously enacted tax decrease would reduce General Fund revenues by \$63.4 million in FY 2005, \$82.7 million for FY 2006, and \$93.2 million for FY 2007 and subsequent fiscal years.

Source

Federal Energy Information Administration

Dennis C. Prouty

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
